

City Investment Watch



Highest February turnover since 2015 shows the resilience of the City market

Investment turnover for February saw £535.92M transact across 8 deals, the highest turnover for the month since 2015, reflecting the continued resilience of the City market, despite political and economic headwinds. February's deals took overall turnover for the year to £647.2M, 4.0% down on 2018 figures, and 29% down on the long term average of £918.0M, for the first two months of the year.

The level of activity in February was in stark contrast to January's four deals. Moreover, turnover for the month was not limited to deals under offer since 2018. Four of the eight transactions (34% of turnover) went under offer in 2019 and subsequently exchanged on what would appear to be relatively quick timescales. Although there is undoubtedly a degree of caution in the market, there are a number of investors taking advantage, offering market level pricing with 'quick' timescales to exchange, a trend we expect to continue through the first half of the year.

February saw Brockton's acquisition of 169 Union Street, SE1 for £100.25M, reflecting a net initial yield of 4.25% and a capital value of £854 per sq ft. The freehold headquarters building occupies a 0.84 acre virtual island site and was originally developed as a Royal Mail sorting office in the early 20th Century. The building was subject to a comprehensive refurbishment in 2000 and provides 117,392 sq ft of office and ancillary accommodation. The property is single let to London Fire and Emergency Planning Authority with over 8 years unexpired. The property offers significant long term refurbishment/redevelopment opportunities with potential for additional massing, subject to the necessary consents. The property was marketed as part of a targeted campaign at a quoting price of £95.0M, 4.48% & £809 per sq ft.

Another notable transaction for the month saw Henderson Park/Dukelease acquire the freehold interest in Ibex House, EC3 from Israeli pension fund Harel Insurance & Financial for

£121.25M, reflecting a net initial yield of 4.95% and a capital value of £634 per sq ft. The freehold Grade II Listed building occupies a 0.75 acre site and comprises 191,144 sq ft of office, restaurant, public house and gym accommodation. The property is multi let to 28 tenants with 19,625 sq ft currently vacant. The topped up passing rent of £6,428,989 per annum reflects £34.68 per sq ft overall. The weighted average unexpired term is 5.25 years to expiry and 2.98 years to breaks.

Given the strong month of investment and with £1.97BN under offer, Savills predict Q1 2019 turnover to reach in excess of £2.0BN. This would be a significant increase on Q1 2018 turnover of c.£1.40BN and up on the 5 year average Q1 volume by 9.5%. The prediction is due in most part to the news that Citi Group are under offer to buy their Canary Wharf headquarters at 25 Canada Square for approximately £1.10BN.

UK investors continue to account for the largest share of investment in 2019, accounting for 63% of total turnover having spent in excess of £410.0M. This is a real shift in activity from UK investors, who at this point in 2018 accounted for 41% of total investment. Asian investors remain 2nd with only £200.0M of investment to date.

Savills Prime City yield, remains at 4.0%, although at risk, if market sentiment deteriorates, given ongoing Brexit negotiations. This compares with the West end prime yield of 3.75%. The MSCI average equivalent yield has remained at 5.4% for the fifth consecutive month while the net initial yield continues to soften, and now at 4.0%, the highest since February 2016.

£535.9M

Transacted across 8 deals, the highest February turnover since 2015



£2.0BN+

forecasted for Q1 turnover, which would be 43% up on 2018

£1.1BN

expected to be paid by Citi Group for their Canary Wharf headquarters

Historic Jan & Feb total turnover

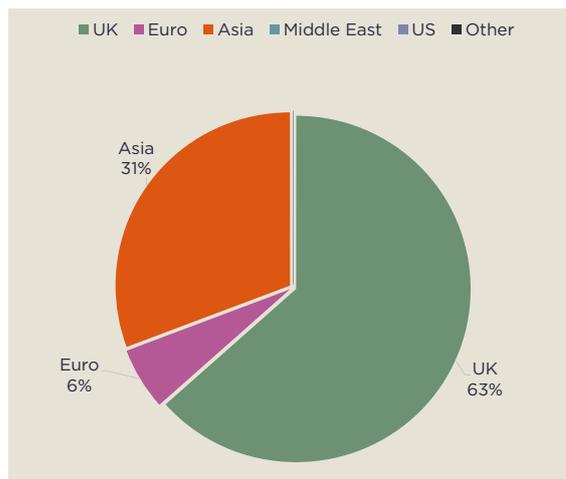
Graph 1



Source: Savills

Turnover by nationality

Graph 2



63%

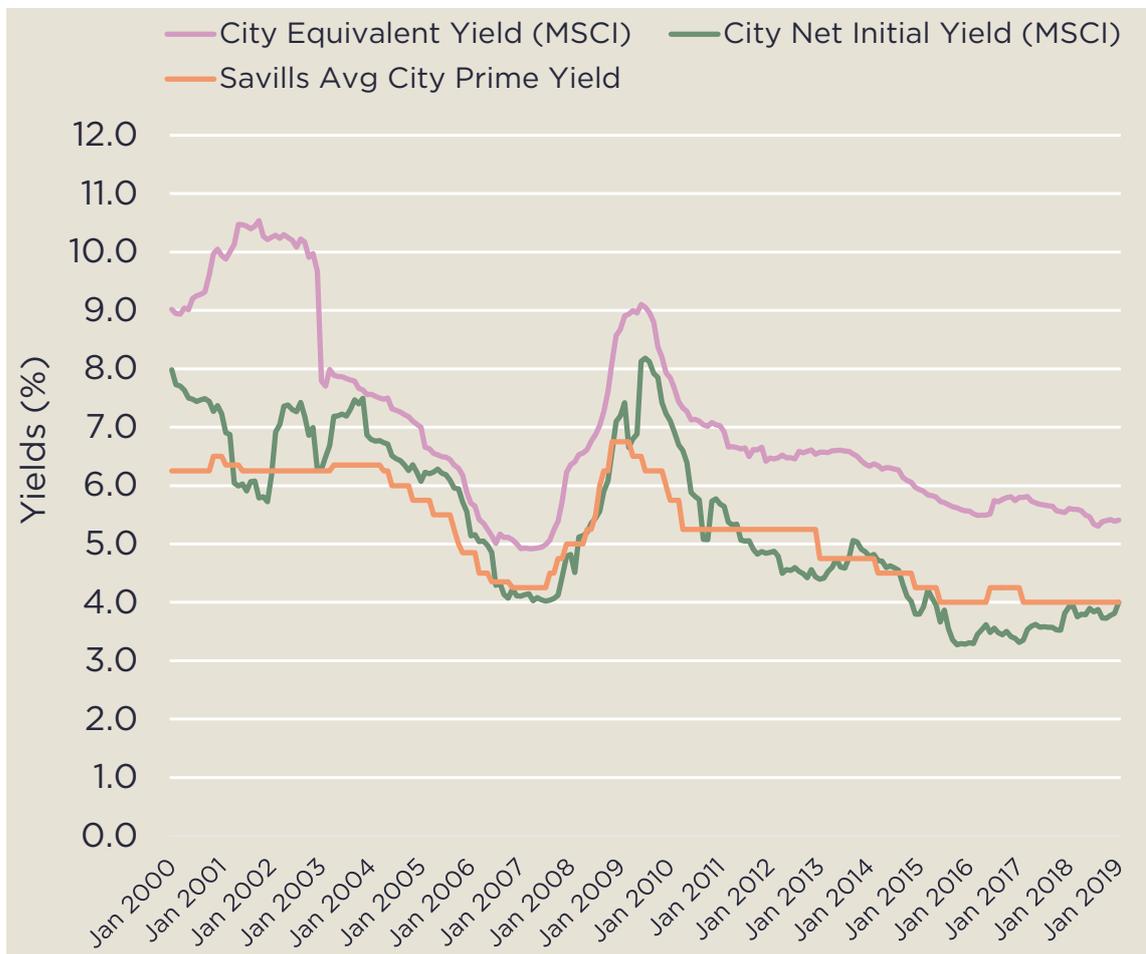
of turnover has been accounted for by UK investors so far this year

Key deals in February 2019

Address				Sector	Area Sq ft	Tenure			Price	Yield	CV/sq ft	Vendor	Purchaser
Building Name	No	Street	PC			FH/LH	U/x term	Gearing					
Ibex House	42-47	Minories	EC3	Office	191,144	FH			£121.25 M	4.95%	£634	Harel Insurance & Financial	Dukelease & Henderson Park
	169	Union Street	SE1	Office	117,392	FH			£100.25 M	4.25%	£854	Nuveen	Brockton
	9	Prescot Street	E1	Office	96,948	FH			£53.80 M	4.46%	£555	Derwent and LaSalle	CLS Holdings
The Lightwell	12-16	Laystall Street	EC1	Office	18,811	FH			£16.00 M	5.90%	£851	Columbia Threadneedle	Northill Properties

City yield graph

Graph 3



Source: Savills and MSCI

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